

**REPORT OF THE AUDIT OF THE
OWSLEY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWSLEY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Owsley County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$41,534 from the beginning of the year, resulting in a cash surplus of \$178,077 as of June 30, 2003.

Debt Obligations:

Capital lease principal agreements, including a contingent liability, totaled \$109,200 as of June 30, 2003. Future principal and interest payments of \$117,185 are needed to meet these obligations, \$19,246 of which is a loan receivable from Allen's Ambulance Service.

Report Comments:

- The County Should Properly Account For Encumbrances
- The County Treasurer Should Prepare Bank Reconciliations For All Bank Accounts, Including Revolving Payroll/Withholding Accounts
- The County Should Maintain Adequate Inventory Records
- Line Item Budget Transfers Should Total To Zero
- The County Did Not Properly Calculate And Record Comp Time Earned By Employees
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits At All Times
- The County Did Not Publish The Annual Financial Statement Within Sixty Days As Required

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds as of June 30, 2003, but were not adequately insured and collateralized on August 31, 2002.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Cale Turner, Owsley County Judge/Executive
Members of the Owsley County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Owsley County, Kentucky, as of June 30, 2003, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Owsley County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Owsley County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Owsley County, Kentucky, as of June 30, 2003, and the revenues received and expenditures paid for the year then ended in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 21, 2004, on our consideration of Owsley County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
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The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Owsley County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Should Properly Account For Encumbrances
- The County Treasurer Should Prepare Bank Reconciliations For All Bank Accounts, Including Revolving Payroll/Withholding Accounts
- The County Should Maintain Adequate Inventory Records
- Line Item Budget Transfers Should Total To Zero
- The County Did Not Properly Calculate And Record Comp Time Earned By Employees
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits At All Times
- The County Did Not Publish The Annual Financial Statement Within Sixty Days As Required

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
June 21, 2004

OWSLEY COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

Cale Turner	County Judge/Executive
Bill Hall	Magistrate
Mike Harris	Magistrate
Jesse Bishop Jr.	Magistrate

Other Elected Officials:

Henley McIntosh	County Attorney
Hubert Shouse	Jailer
Sid Gabbard	County Clerk
Mike Mays	Circuit Court Clerk
Kelly Shouse	Sheriff
Monica Barrett	Property Valuation Administrator
Eddie Isaacs	Coroner

Appointed Personnel:

Marvin McIntosh	Former County Treasurer
Barbara Whittaker	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

OWSLEY COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	Governmental Fund Type		Totals (Memorandum Only) Primary Government
	General	Special Revenue	
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 166,269	\$ 11,904	\$ 178,173
Loan Receivable (Note 4)		17,320	17,320
Total Assets	\$ 166,269	\$ 29,224	\$ 195,493
<u>Other Resources</u>			
Amounts to Be Provided in Future Years for:			
Capital Leases (Note 5 A, B, & C)	\$ 73,080		\$ 73,080
Total Other Resources	\$ 73,080	-	\$ 73,080
Total Assets and Other Resources	\$ 239,349	\$ 29,224	\$ 268,573

The accompanying notes are an integral part of the financial statements.

OWSLEY COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

	Governmental Fund Types		Totals (Memorandum Only) Primary Government
	General	Special Revenue	
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Leases (Note 5 A, B, & C)	\$ 73,080	\$ 17,320	\$ 90,400
Total Liabilities	\$ 73,080	\$ 17,320	\$ 90,400
<u>Equity</u>			
Fund Balances:			
Reserved		\$ 11,904	\$ 11,904
Unreserved	\$ 166,269		166,269
Total Equity	\$ 166,269	\$ 11,904	\$ 178,173
Total Liabilities and Equity	\$ 239,349	\$ 29,224	\$ 268,573

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

OWSLEY COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 496,988	\$ 785,928	\$ 36,998	\$ 89,072
Other Financing Sources:				
Transfers In	169,636	27,000	165,602	
Lease-Purchase Proceeds		50,400		
Total Cash Receipts	<u>\$ 666,624</u>	<u>\$ 863,328</u>	<u>\$ 202,600</u>	<u>\$ 89,072</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 559,018	\$ 618,139	\$ 206,420	\$ 32,477
Other Financing Uses:				
Transfers Out	111,621	169,636		80,981
Capital Lease Agreements:				
Principal Paid	8,505			
Total Cash Disbursements	<u>\$ 679,144</u>	<u>\$ 787,775</u>	<u>\$ 206,420</u>	<u>\$ 113,458</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (12,520)	\$ 75,553	\$ (3,820)	\$ (24,386)
Cash Balance - July 1, 2002	<u>\$ 63,760</u>	<u>\$ 29,757</u>	<u>\$ 7,345</u>	<u>\$ 30,484</u>
		*		
Cash Balance - June 30, 2003	<u>\$ 51,240</u>	<u>\$ 105,310</u>	<u>\$ 3,525</u>	<u>\$ 6,098</u>

* Prior year balance adjusted \$1 due to rounding

The accompanying notes are an integral part of the financial statements.

OWSLEY COUNTY
 STATEMENT OF CASH RECEIPTS,
 CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 June 30, 2003
 (Continued)

Special Revenue Fund Type					
Ambulance Fund	Forestry Fund	Local Government Economic Development Fund	Community Development Block Grant Fund	Totals (Memorandum Only)	
\$ 19,672	\$ 1,931	\$ 552,407	\$ 3,500	\$ 1,986,496	
				362,238	
				50,400	
<u>\$ 19,672</u>	<u>\$ 1,931</u>	<u>\$ 552,407</u>	<u>\$ 3,500</u>	<u>\$ 2,399,134</u>	
\$ 6,535	\$ 1,866	\$ 552,407	\$ 3,500	\$ 1,980,362	
				362,238	
6,495				15,000	
<u>\$ 13,030</u>	<u>\$ 1,866</u>	<u>\$ 552,407</u>	<u>\$ 3,500</u>	<u>\$ 2,357,600</u>	
\$ 6,642	\$ 65	\$	\$	\$ 41,534	
\$ 4,949	\$ 248	\$	\$	\$ 136,543	
<u>\$ 11,591</u>	<u>\$ 313</u>	<u>\$</u>	<u>\$</u>	<u>\$ 178,077</u>	

The accompanying notes are an integral part of the financial statements.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Owsley County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Owsley County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Owsley County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Owsley County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Owsley County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and the Local Government Economic Assistance Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Owsley County Special Revenue Fund Type includes the following county funds: Ambulance Fund, Forestry Fund, Local Government Economic Development Fund, and Community Development Block Grant Fund.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Owsley County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts. KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Joint Ventures (Continued)

The Owsley County Fiscal Court has entered into a joint venture with Wolfe and Lee counties. They have formed the Three Forks Public Properties Corporation, a legally separate organization, in order to sell bonds to build the Three Forks Regional Jail. The Owsley County Fiscal Court does not appoint a voting majority of the 10 board members. Lee County appoints 4 of the 10 members. Wolfe and Owsley counties appoint 3 members each. Each county will be equally liable if the Three Forks Regional Jail doesn't meet the bond payment requirements. Each of the three participants will have joint control and they have an ongoing financial interest and ongoing financial responsibility. Each county has also guaranteed the Three Forks Regional Jail payment for 15 prisoners per county at the rate of \$25 a day even if the occupancy is at a lower amount. The Three Forks Public Properties Corporation issued \$6,295,000 of First Mortgage Revenue Bonds for the construction of the regional jail.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$149,256 of public funds uninsured and unsecured.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 3. Deposits (Continued)

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2002.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county's name	271,507
Uncollateralized and uninsured	<u>149,256</u>
Total	<u>\$ 520,763</u>

Note 4. Loan Receivable

On March 2, 2000, the fiscal court entered into an agreement with Allen's Ambulance Service for the purchase of an ambulance. The agreement stated that the fiscal court would finance the ambulance purchase on behalf of Allen's Ambulance Service. The county is responsible for making the required monthly payments. As of June 30, 2003, Allen's Ambulance Service owed the county \$17,320 in unpaid loan principal payments (See Note 5B for payment schedule).

Note 5. Capital Leases

A. Voting Machines

On March 2, 2000, Owsley County entered into a lease agreement with Kentucky Area Development Districts Financing Trust for voting machines. The principal amount of the lease was \$48,195. The agreement requires semi-annual interest payments in May and November and annual principal payments in May to be paid in full May 20, 2005. The principal balance of the agreement was \$22,680 as of June 30, 2003. Lease payments for the remaining years are:

Fiscal Year Ending June 30	Scheduled Interest And Other Fees	Scheduled Principal
2004	\$ 1,588	\$ 11,340
2005	<u>936</u>	<u>11,340</u>
Totals	<u>\$ 2,524</u>	<u>\$ 22,680</u>

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Capital Leases (Continued)

B. Ambulance

On March 2, 2000, the fiscal court entered into an agreement with Allen's Ambulance Service for the purchase of an ambulance. The agreement stated that the fiscal court would finance it on behalf of Allen's Ambulance Service. The county is responsible for making the required monthly payments. Allen's Ambulance Service is required to reimburse the county for the monthly payments. As of June 30, 2003, the remaining principal balance was \$17,320, all of which is a receivable due the county from Allen's Ambulance Service (See Note 4 above). Lease payments for the remaining years are:

Fiscal Year Ending June 30	Scheduled Interest And Other Fees	Scheduled Principal
2004	\$ 1,212	\$ 8,660
2005	714	8,660
Totals	<u>\$ 1,926</u>	<u>\$ 17,320</u>

C. John Deere Backhoe

On June 24, 2003, the fiscal court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of a John Deere backhoe. The principal amount of the lease was \$50,400, all of which was outstanding as of June 30, 2003. The agreement requires monthly interest payments and annual principal payments in January to be paid in full January 20, 2006. Lease payments for the remaining years are:

Fiscal Year Ending June 30	Scheduled Interest And Other Fees	Scheduled Principal
2004	\$ 1,096	\$ 16,500
2005	661	16,800
2006	247	17,100
Totals	<u>\$ 2,004</u>	<u>\$ 50,400</u>

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Contingent Liability

On November 4, 1998, the county entered into an agreement with Fifth Third Bank Corporate Trust to purchase an ambulance that is used by Allen's Ambulance Service. Fifth Third Bank Corporate Trust has since been purchased by the Bank of New York, however, the terms of the agreement remain the same. Allen's Ambulance Service is making all payments for the ambulance directly to the Bank of New York. In the event that Allen's Ambulance Service should fail to make the scheduled payment, the county would be responsible for the liability. As of June 30, 2003, Allen's Ambulance Service was in compliance with all scheduled payments to the Bank of New York. As of June 30, 2003, the outstanding principal balance was \$18,800. Lease payments for the remaining years are:

Fiscal Year Ending June 30	Scheduled Interest And Other Fees	Scheduled Principal
2004	\$ 875	\$ 6,700
2005	528	7,100
2006	128	5,000
Totals	<u>\$ 1,531</u>	<u>\$ 18,800</u>

Note 7. Insurance

For the fiscal year ended June 30, 2003, Owsley County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

OWSLEY COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 455,214	\$ 496,988	\$ 41,774
Road and Bridge Fund	884,681	785,928	(98,753)
Jail Fund	63,100	36,998	(26,102)
Local Government Economic Assistance Fund	94,500	89,072	(5,428)
<u>Special Revenue Fund Type</u>			
Ambulance Fund	60,000	19,672	(40,328)
Forestry Fund	2,040	1,931	(109)
Local Government Economic Development Fund	972,000	552,407	(419,593)
Community Development Block Grant Fund	3,500	3,500	
Totals	<u>\$ 2,535,035</u>	<u>\$ 1,986,496</u>	<u>\$ (548,539)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above		\$ 2,535,035	
Add: Budgeted Prior Year Surplus		94,984	
Less: Other Financing Uses		<u>(15,000)</u>	
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures		<u>\$ 2,615,019</u>	

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SCHEDULE OF OPERATING REVENUE

OWSLEY COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

GOVERNMENTAL FUND TYPE

<u>Revenue Categories</u>	<u>General Fund Type</u>	<u>Special Revenue Fund Type</u>	<u>Totals (Memorandum Only)</u>
Taxes	\$ 330,779	\$ 1,923	\$ 332,702
In Lieu Tax Payments	21,084		21,084
Licenses and Permits	5,862		5,862
Intergovernmental Revenues	977,028	567,490	1,544,518
Charges for Services	9,385		9,385
Miscellaneous Revenues	61,834	8,081	69,915
Interest Earned	3,014	16	3,030
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Total Operating Revenue	<u>\$ 1,408,986</u>	<u>\$ 577,510</u>	<u>\$ 1,986,496</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

OWSLEY COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 375,996	\$ 370,154	\$ 5,842
Protection to Persons and Property	278,891	261,328	17,563
General Health and Sanitation	11,551	11,498	53
Social Services	3,000	3,000	-
Roads	503,528	438,093	65,435
Debt Service	2,077	2,077	-
Capital Projects	147,585	103,799	43,786
Administration	261,346	226,105	35,241
Total Operating Budget - General Fund Type	\$ 1,583,974	\$ 1,416,054	\$ 167,920
Other Financing Uses:			
Capital Lease Agreements-			
Principal on Lease - Voting Machines	8,505	8,505	-
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 1,592,479</u>	<u>\$ 1,424,559</u>	<u>\$ 167,920</u>

OWSLEY COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 897,000	\$ 552,407	\$ 344,593
Protection to Persons and Property	47,102	7,500	39,602
General Health and Sanitation	3,500	3,500	-
Recreation and Culture	75,000		75,000
Debt Service	8,443	901	7,542
Total Operating Budget - Special Revenue Fund Type	\$ 1,031,045	\$ 564,308	\$ 466,737
Other Financing Uses:			
Capital Lease Agreements-			
Principal on Lease - Ambulance	6,495	6,495	-
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 1,037,540</u>	<u>\$ 570,803</u>	<u>\$ 466,737</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

The Honorable Cale Turner, Owsley County Judge/Executive
Members of the Owsley County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Owsley County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated June 21, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Owsley County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Did Not Properly Calculate And Record Comp Time Earned By Employees
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits At All Times
- The County Did Not Publish The Annual Financial Statement Within Sixty Days As Required

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owsley County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Owsley County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- The County Should Properly Account For Encumbrances
- The County Treasurer Should Prepare Bank Reconciliations For All Bank Accounts, Including Revolving Payroll/Withholding Accounts
- The County Should Maintain Adequate Inventory Records
- Line Item Budget Transfers Should Total To Zero

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider all of them to be material weaknesses.

This report is intended solely for the information and use of management is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
June 21, 2004

COMMENTS AND RECOMMENDATIONS

OWSLEY COUNTY
COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2003

REPORTABLE CONDITIONS

The County Should Properly Account For Encumbrances

The fiscal court did not prepare a complete and accurate list of encumbrances for the fiscal year ended June 30, 2003. This is a requirement of the Department for Local Government (DLG). The County should prepare a list of any unpaid purchase orders by fund from the purchase order journal at the close of each quarter. The list should include the P.O. number and the amount. These amounts should also agree to the amounts reported on the 4th Quarter Financial Statement. We recommend that the fiscal court adopt the purchasing procedures set forth by DLG.

County Judge/Executive Cale Turner's Response:

We will be attaching purchase orders to all encumbrances that are outstanding.

The County Treasurer Should Prepare Bank Reconciliations For All Bank Accounts, Including Revolving Payroll/Withholding Accounts

Bank reconciliations were not prepared for the CDBG Fund, the Retirement Revolving Account, the EFTPS Account, and the Withholding for Sheriff & Clerk Account. The CDBG Fund is a separate fund of the county and is included on the financial statements, therefore, should have a separate bank reconciliation prepared even if the bank statement shows a zero balance. Also, even though the payroll related accounts previously mentioned are revolving and should ideally have a zero balance, bank reconciliations are still necessary. Payroll account balances are included on the county's financial statements and auditors must have an accurate reconciled balance. We recommend that the treasurer prepare bank reconciliations for all bank accounts.

County Judge/Executive Cale Turner's Response:

We will make sure to prepare bank reconciliations on all accounts.

OWSLEY COUNTY
 COMMENTS AND RECOMMENDATIONS
 For The Fiscal Year Ended June 30, 2003
 (Continued)

REPORTABLE CONDITIONS (Continued)

The County Should Maintain Adequate Inventory Records

The county's Inventory records are not adequate. The county maintains inventory records, but they are not in accordance with the guidelines established by the DLG. The equipment listed did not have model numbers, serial numbers, or the cost or other basis of valuation. The DLG "State Local Finance Officer Policy Manual" states that "Adequate fixed asset records provide the information necessary to:

- Report the costs or other basis of valuation,
- Determine the accuracy of insurance coverage,
- Maintain control of county property, and
- Long range planning for property replacement"

It further states that the following procedures should be used to achieve the above objectives:

- "Record - The fixed asset record must identify the asset, its cost or other basis of valuation, date acquired, fund charged, location and other information
- Inventory - An annual inventory of fixed assets must be conducted and compared to the fixed assets records. A master list should be prepared,
- Updating - A fixed asset record should be prepared for each acquisition. The total of the capital outlay accounts for the year should be compared to the total general fixed asset additions. The deletions to general fixed assets (disposal information) should be documented.

We recommend that the fiscal court adopt the procedures and documents set forth by the DLG Handbook *Instructional Guide for County Budget Preparation & State Local Finance Officer Policy Manual*. Copies of blank forms are provided in the manual for county personnel to use.

County Judge/Executive Cale Turner's Response:

We are in the process of doing this and will be included on the yearly financial statement.

Line Item Budget Transfers Should Total To Zero

Line item budget transfers in the expenditures section of the 4th Quarter Financial Statement did not add to zero (they did not cancel out) in total among all funds listed on the 4th Quarter Financial Statement. A difference of \$11,600 was noted in the Jail Fund for the line item budget transfers. We recommend the county ensure that line item transfers zero out in total in order to check for the accuracy of budget information and computations.

County Judge/Executive Cale Turner's Response:

Using Fiscal Soft program will take care of this problem.

OWSLEY COUNTY
COMMENTS AND RECOMMENDATIONS
For The Fiscal Year Ended June 30, 2003
(Continued)

NONCOMPLIANCES

The County Did Not Properly Calculate And Record Comp-Time Earned By Employees

It was noted during testing that beginning in January 2003, the county offered employees the opportunity to earn comp-time. The county did not properly calculate and record comp-time earned by these employees. The county only allowed the employees to earn comp-time on an hour for hour basis for time worked over 40 hours per week. Pursuant to KRS 337.285, "a county employee may be granted compensatory time in lieu of overtime pay, at the rate of not less than one and one-half (1½) hours for each hour the county employee is authorized to work in excess of forty (40) hours in a work week." We recommend the county review all payroll records beginning in January 2003 and determine which employees are owed additional comp-time and increase those employees' comp-time balances. In the event the employee is no longer employed by the county, KRS 337.285 also states, "all unused accrued compensatory time shall be paid at a rate of compensation not less than: (a) the average regular rate received by the county employee during the last three (3) years of the county employee's employment; or (b) the final regular rate received by the county employee, whichever is higher."

County Judge/Executive Cale Turner's Response:

We will adjust timesheets to show time and half.

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits At All Times

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$149,256 of public funds uninsured and unsecured. We recommend the county require the depository institution to pledge or provide sufficient collateral to protect deposits at all times.

County Judge/Executive Cale Turner's Response:

We will ask the bank to make sure all deposits are secured at all times.

OWSLEY COUNTY
COMMENTS AND RECOMMENDATIONS
For The Fiscal Year Ended June 30, 2003
(Continued)

NONCOMPLIANCES (Continued)

The County Did Not Publish The Annual Financial Statement Within Sixty Days As Required

The county did not publish the annual financial statement within 60 days as required. KRS 424.220 (6) states, "The officer shall...within sixty (60) days after the close of the fiscal year cause the financial statement to be published in full in a newspaper qualified under KRS 424.120 to publish advertisements for the city, county, or district, as the case may be." The county published the Treasurer's Settlement Report on September 25, 2003, which is after the 60-day publication deadline. We recommend the county publish the annual financial statement in a timely manner to comply with the requirements of KRS 424.220 (6).

County Judge/Executive Cale Turner's Response:

In the future, we will correct.

PRIOR YEAR FINDINGS

- The County Should Properly Account For Encumbrances
- The County Should Maintain Adequate Inventory Records

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

OWSLEY COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS


OWSLEY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Owsley County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Cale Turner
County Judge/Executive



Marvin McIntosh
County Treasurer

